VSP PROBLEM SUMMARY

Plans for the Voluntary Separation Plan (VSP) retirement estimates began in November 1992. Benefit incentives and effective dates changed several times prior to the VSP implementation. The official effective date and program parameters required data changes to be added to the system program.

Due to time constraints, staffing resources and cost savings the estimate calculation process was out sourced to the firm of Towers, Perrin, Foster and Crosby (TPF&C). TPF&C is the actuary firm who currently holds the contract for funding our retirement plans. TPF&C had demographic information on our employees and Philip Morris supplied them with the additional data required to calculate the estimates.

The estimates were completed within the five (5) day turnaround period. Out of the 1,181 estimates, Philip Morris did a random sampling of the calculations and found no errors. The data was sent to the eligible employees February 2, 1993, and the decision to accept the program was made based on the information contained in a letter and discussed in an interview. Interviews were available February 6 through 19.

When the final earnings were available March 8, 1993, the final calculations were completed by Philip Morris Benefits staff. It was discovered that twelve (12) estimates had been overstated ranging from $150.00 to $350.00 affecting people who had accepted the program. After contacting TPF&C they discovered that a total of fifty-five (55) estimates were in error.

The errors resulted from the use, by TPF&C, of an incorrect retirement group code. This, in turn, overstated the retirement benefit payable by $10 per years of service. The confusion over the correct job code relates to a union contract provision which bases a retirement benefit on the tenure in a job classification prior to an employee's retirement.

Each affected participant was contacted and offered compensation (one year's worth of the difference) for the error or return to work to prior position. Eleven (11) of the twelve (12) affected retirees accepted the compensation and one returned to work. One (1) of the two (2) employees who had the understated benefit accepted the program and the other declined. Resulting in four hundred seventy-one (471) participants accepting the program and one returning to work.

We regret this unfortunate situation occurred and the inconvenience to the affected employees.

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